

March 18, 2021

**The Acting Chair's Summing Up**  
**Republic of Korea—2021 Article IV Consultation**  
**Executive Board Meeting 21/27**  
**March 17, 2021**

Executive Directors broadly agreed with the thrust of the staff appraisal. They commended Korea's effective COVID-19 containment measures and comprehensive economic policy response, which, along with sound macroeconomic fundamentals, have allowed the economy to weather the pandemic shock comparatively well and should help minimize the risks of long-term economic scarring. They were encouraged by the ongoing economic recovery, while observing that the outlook is subject to high uncertainty. Going forward, Directors underscored the need for continued supportive macroeconomic policies to help the economy normalize faster, safeguard financial stability, and foster greener and more inclusive growth.

Directors agreed that fiscal policy should remain expansionary over the near term. They welcomed the authorities' recent announcement of a proposed supplementary budget, which would enable a positive fiscal impulse for the current year by raising transfers targeted to affected workers and firms, and provide resources for COVID-19 vaccinations. They observed that this expansion could be offset by gradual consolidation in subsequent years, anchored on the proposed rules-based fiscal framework. Directors noted that an independent council to monitor and review implementation of the proposed fiscal rule would enhance its credibility.

Directors viewed the monetary easing in 2020 as appropriate and agreed that monetary policy should remain accommodative. Most Directors considered the current monetary stance as broadly appropriate given the need to balance macroeconomic conditions and financial stability risks, while a few saw merit in additional easing to help underpin the recovery and bring inflation closer to target.

Directors welcomed the steps taken following the COVID outbreak to sustain credit flows, especially to small businesses, and agreed that credit support programs should be maintained until the economy recovers more broadly.

Directors viewed the financial system as resilient overall, supported by a macroprudential policy stance that is appropriate given the level of risks. They concurred that while several factors mitigate financial stability risks from high household debt, the introduction of a sectoral capital buffer on household exposures would further strengthen the

resilience of banks to potential losses. Directors also encouraged the authorities to be prepared to tighten prudential policies further in the event of continued rapid household credit growth, and to closely monitor pressures in the real estate market. They welcomed recent measures to strengthen resilience among non-bank financial institutions.

Directors were encouraged by the authorities' strategy to develop new growth drivers through the Korean New Deal, which would facilitate a digital, greener, and more inclusive economy. They encouraged the authorities to take complementary steps to boost potential growth by reducing entry barriers, fostering innovation, and tackling labor market rigidities, particularly to support women and youth. Welcoming Korea's ambitious climate change mitigation objectives, Directors underscored the importance of carbon pricing to provide robust incentives for green investment.

It is expected that the next Article IV consultation with Korea will be held on the standard 12-month cycle.